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PUBLIC SERVICE COMMISSION

February 1, 2022

Chair Delores Kelley
Finance Committee
Miller Senate Office Building, 3 East
Annapolis, Maryland 21401

RE: UNFAVORABLE – SB 334 – Electricity – Standard Offer Service – Renewable Energy

Dear Chair Kelley and Committee Members:

I write today in opposition to SB 334. This bill would change the dynamic of two longstanding Maryland electricity policies: (1) deregulated electricity supply, established by the *Electric Customer Choice and Competition Act of 1999*; and (2) the Renewable Portfolio Standard (“RPS”), established in 2004. Electricity suppliers currently meet the statutory compliance requirements of the RPS by trading Renewable Energy Credits (“REC”) via a Commission-approved system operated by market overseen by PJM Environmental Information Services, Inc. (“PJM-EIS”). SB 334 would require the electric utilities to meet a portion of their RPS compliance with long-term contracts directly with renewable energy facilities. The PSC oversees compliance by electricity suppliers with the RPS and compliance by utilities that offer customers Standard Offer Service as an option for electricity supply.

SB 344 carries both potential cost impacts to ratepayers and poses implementation issues for the PSC. First, the bill would require an electric company contract for RECs and electricity generated from Tier 1 renewable sources. The existing RPS uses market principles in that the price of RECs is determined by the supply of RECs offered by generators and the number of RECs demanded by retail electric suppliers. SB 334 would shift a portion of the RPS away from the market and likely increase costs. Additionally, to the extent that long-term contracts lock in REC prices at a given level, this prevents the utilities from acquiring those RECs later using the existing SOS bid process, at potentially lower costs.

Second, SB 334 would shift risks from the developers of renewable energy generation to electricity ratepayers. A similar federal mandate for the purchase of electricity from projects pursuant to the *Public Utility Regulatory Policies Act* has increased costs for some Maryland ratepayers, namely customers of Potomac Edison who have had to pay above-market costs for the output of the Warrior Run project. The Warrior Run project uses a similar mechanism to pay for its output (utility power purchase and resale on the wholesale market), and has cost Maryland

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ratepayers nearly \$1.5 billion in above-market power costs over the last twenty years. The PSC is concerned that SB 334 could cause similar cost impacts to ratepayers if passed.

Third, SB 334 directs that electric companies “receive an annual remuneration equal to 1% of the annual payments under the contract to compensate the electric company for accepting the financial obligation of the long term contract.” However, as the commodity cost of electricity is passed to consumers, it is unclear why the electric companies would need remuneration. This cost, which would be recovered from ratepayers, could approach \$2.5 million annually.

Fourth, SB 334 would require the PSC to determine if a contract submitted for renewable energy is cost effective as compared to the long-term projection of renewable energy costs. The Commission does not have expertise internally to make this determination. As the price of RECs and solar RECs (SRECs) vary significantly from year to year; the Commission would need a means to forecast the long-term price of RECs and SRECs. Making this determination would be difficult without additional PSC resources and staffing.

Finally, the PSC would be required to adopt regulations on or before March 31, 2023 to carry out the requirements of the legislation. The March 31, 2023 effective date does not provide sufficient time for the Commission to establish regulations. The earliest that the PSC could reasonably adopt comprehensive regulations would be in mid-2024 or later to allow the PSC to: (1) issue a solicitation for consulting services; (2) hire a contractor; (3) establish a work group process; and (4) promulgate regulations. Similarly, the beginning date to for an electric company to contract for RECs and electricity generated from Tier 1 renewable resources under section 7-703.1 should be postponed to a date after regulations are established.

For these reasons, the PSC opposes SB 334 and urges an unfavorable report. Thank you for your consideration of this information. Please contact Lisa Smith, Director of Legislative Affairs, at (410) 336-6288 if you have any questions.

Sincerely,



Jason M. Stanek
Chairman